



Financial Management

21st Century

Learning, Growing and Building.
Moving together through the
21st Century!

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Message from the Chief Financial Officer

November 15, 2004

When CEO David Eisner arrived at the Corporation in December 2003, he outlined three goals:

- Restore trust and credibility,
- Manage to accountability, and
- Focus on the customer.

I am pleased to report that in our financial management, we have made breakthrough progress on all fronts. We have reformed our management of the National Service Trust, maintained clean financial statements, integrated budget and performance, established operational metrics, improved grants oversight, and reviewed our business processes in search of greater effectiveness and efficiency.

Restore trust and credibility

National Service Trust reforms

In FY 2003, the Corporation was forced to temporarily pause AmeriCorps member enrollments after we determined that the number of positions already enrolled could cause a shortfall in the National Service Trust. To prevent a future deficiency, we have overhauled the way we manage the Trust. Strict new procedures govern the awarding of grants and enrollment of members, and we have fully implemented the letter and spirit of the Strengthen AmeriCorps Program Act of 2003: we use conservative assumptions to calculate education award obligations and to obligate funds for education awards before making grant awards and have established a reserve fund to protect the Trust's solvency in the event its liability estimates are incorrect. The Government Accountability Office (GAO), our Office of Inspector General (OIG) and our independent auditor, Cotton & Company LLP, have reviewed our progress in addressing this issue and reported favorably on our reforms.

Manage to accountability

Clean audit

For the fifth year in a row, the Corporation has received an unqualified audit opinion on its financial statements. The Corporation also has maintained an outstanding record of compliance with all applicable laws and regulations and can confidently provide assurance that our financial reporting, systems and management controls comply with the requirements of the Federal Financial Management Improvement Act and the Federal Managers' Financial Integrity Act, with one exception. The

OIG's audit of the Corporation's compliance with the Federal Information Security Management Act found that our major systems had not undergone a complete test and evaluation within the last 12 months and reported this as a significant deficiency. The Corporation disagrees with this finding for reasons that are fully explained in the Management Assurance on Internal Controls section of this report. In any case, we expect to complete an OMB-compliant test and evaluation by December 31, 2004, resolving the OIG's finding.

Improving Grants Oversight and Monitoring

The Corporation has made significant progress in improving its oversight and monitoring of grant awards, but we still have work to do. In response to recommendations in the FY 2003 audit report, the Corporation revised State Administrative Standards to incorporate a risk-based approach, completed all planned Senior Corps site visits, improved the use of eGrants in tracking and monitoring site visit results, provided more timely feedback to grantees, and more closely monitored grantee progress reports. While our auditors acknowledge our gains, they have again cited shortcomings in this area as a reportable condition.

To finally resolve this reportable condition, in FY 2005 we plan to hire our first Director of Grants Oversight and Monitoring, who will lead the development of a Corporation-wide oversight and monitoring accountability plan, standardize policies and procedures across programs, and implement best practices. We will also complete on ongoing project to reform the planning and management of our cooperative agreements.

Integrating Budget and Performance

The Corporation made a great leap in FY 2004 toward fully integrating budget and performance management. At the outset of the FY 2006 budget process, Corporation executives agreed on a framework of shared goals, strategies, and performance indicators. Each program then used a "logic model" approach to align its operating plan and resource requests with the Corporation framework.

The Corporation also continued to develop a comprehensive hierarchy of performance metrics—from national outcome measures, such as the percent of Americans who volunteer, down to operational measures, such as grant application cycle times. To effectively monitor these metrics, we are

- building a data warehouse to consolidate and organize information from a variety of sources;

- creating a “management dashboard” that puts the most critical performance metrics at the fingertips of executives and managers;
- collecting a wealth of new data, including new surveys of members, grantees, and end beneficiaries; and
- looking to standardize the performance measures reported by our grantees.

Focus on the customer

Continuous improvement

Providing world-class customer service requires an unflagging focus on improving how we do business.

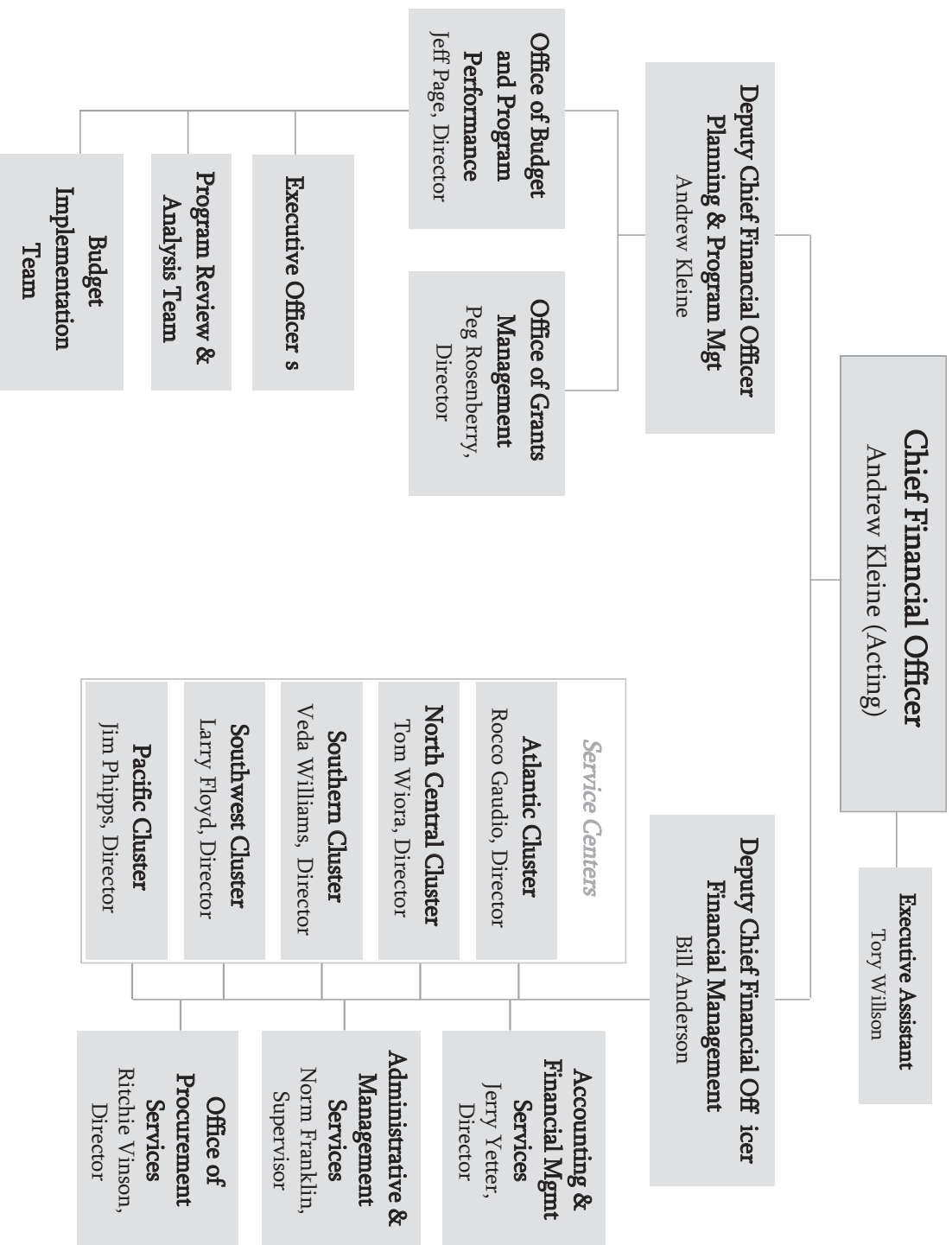
In FY 2004, the Corporation completed business process reviews of our National Service Trust operations, the VISTA and NCCC payroll systems and procurement operations, which identified ways to become more effective and efficient in each area. One of the resulting initiatives is to automate a labor- and paper-intensive education award payment process, making the process quicker and easier for our customers and producing significant operating cost savings.

We are also implementing new software to improve payroll budget projections and make several budget execution functions more efficient and accurate.

The Corporation aspires to become a leader among Federal agencies in integrating financial and performance information and using that information to support decision-making. Thanks to the hard work of a skilled and dedicated financial management staff and a strong commitment from Corporation leadership, we are on the right track.



Andrew Kleine
Acting Chief Financial Officer



Financial Statements

The Corporation has prepared its FY 2004 financial statements in accordance with the Government Corporation Control Act, as amended by § 306 of the Chief Financial Officers Act. The Government Corporation Control Act requires that government corporations submit an annual report to the Congress within 180 days of the fiscal year end. The Office of Management and Budget has accelerated this reporting deadline so that for FY 2004 the report is due 45 days after the end of the fiscal year.

In addition to the statements required by the Corporation Control Act, the Corporation has added a Statement of Budgetary Resources, which reports on the status of appropriated funds, as one of its principal financial statements as required under the President's February 27, 2004, Executive Order on National and Community Service Programs. The Corporation's FY 2004 financial statements include the following:

- Statement of Financial Position, which reports the status of Corporation assets, liabilities, and net position;
- Statement of Operations and Changes in Net Position, which reports on revenues and expenses of the Corporation for the year;
- Statement of Budgetary Resources, which reports the status of the Corporation's obligations and outlays; and
- Statement of Cash Flows, which reports on the components that make up the change in fund balance of the Corporation for the year.

The statements present comparative information for FY 2004 and 2003. The Corporation has made significant improvements in financial management reporting in the past several years. For the fifth year in a row, the Corporation's audited financial statements received an unqualified opinion. This opinion recognizes the financial statements as fairly presented, in all material respects, in conformity with generally accepted accounting principles.

Limitations of the Financial Statements

These statements have been prepared to report on the financial position and results of operations of the Corporation for National and Community Service, a Federal government corporation, in conformity with generally accepted accounting principles.

While the statements have been prepared from the books and records of the Corporation, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. These statements should also be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.

These financial statements have been prepared to report the financial position, results of operations, and cash flows of the Corporation for National and Community Service (Corporation), as required by the Government Corporation Control Act (31 USC 9106) and by the National and Community Service Act of 1990, as amended (42 USC 12651). In addition, the Corporation prepares a Statement of Budgetary Resources, which reports on the status of appropriated funds, as one of its principal financial statements as required by the President's February 27, 2004 Executive Order on National and Community Service Programs. These financial statements have been prepared from the books and records of the Corporation. The Statements of Financial Position, Operations and Changes in Net Position, Statement of Budgetary Resources, and Cash Flows have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to Federal government entities and include the Corporation's activities related to providing grants and education awards to eligible participants. Additionally, the Statement of Budgetary Resources has been prepared in accordance with guidance prescribed in Office of Management and Budget (OMB) Memorandum 01-09, *Form and Content of Agency Financial Statements*, which constitutes generally accepted accounting principles for Federal governmental entities as specified by the AICPA's Statement on Auditing Standards 69 (as amended), *The Meaning of Presents Fairly in Conformity with Generally Accepted Accounting Principles*. The Corporation is not subject to income tax.

Transactions are recorded in the accounting system on an accrual basis and a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Appropriations are considered earned for the Corporation's National Service Trust Fund and are recognized as revenue when received in the Trust Fund.

The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. Budgetary accounting principles are designed to

recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. Thus, the Statements of Financial Position, Operations and Changes in Net Position, and Cash Flows differ from the Statement of Budgetary Resources and other financial reports submitted pursuant to OMB directives for the purpose of providing information on how budgetary resources were made available and monitoring and controlling the use of the Corporation's budgetary resources.

Corporation for National and Community Service
Statements of Financial Position
As of September 30
(dollars in thousands)

	2004	2003
ASSETS		
Fund Balance with Treasury <i>(Note 2)</i>	\$ 854,370	\$ 743,363
Trust Investments and Related Receivables <i>(Note 3)</i>	337,913	231,880
Advances to Others	66,154	49,279
Accounts Receivable, Net <i>(Note 4)</i>	2,636	2,756
Property and Equipment, Net <i>(Note 5)</i>	962	786
Total Assets	<u>\$ 1,262,035</u>	<u>\$ 1,028,064</u>
LIABILITIES		
Trust Service Award Liability <i>(Note 6)</i>	\$ 237,497	\$ 230,622
Grants Payable	117,250	116,798
Accounts Payable	7,133	7,145
Actuarial FECA Liability <i>(Note 8)</i>	12,401	12,506
Other Liabilities	10,391	9,258
Accrued Annual Leave	3,050	3,086
Advances from Others	187	223
Capital Lease Liability <i>(Note 7)</i>	66	39
Total Liabilities	<u>387,975</u>	<u>379,677</u>
Commitments and Contingencies <i>(Notes 7 and 14)</i>		
NET POSITION		
Unexpended Appropriations		
Obligated	740,769	554,179
Unobligated	48,286	111,174
Cumulative Results of Operations	<u>85,005</u>	<u>(16,966)</u>
Total Net Position <i>(Note 9)</i>	<u>874,060</u>	<u>648,387</u>
Total Liabilities and Net Position	<u>\$ 1,262,035</u>	<u>\$ 1,028,064</u>
<i>The accompanying notes are an integral part of these financial statements.</i>		

Corporation for National and Community Service
Statements of Operations and Changes in Net Position
For the Years Ended September 30
(dollars in thousands)

	2004	2003
REVENUES		
Appropriated Capital Used, excluding Trust Fund	\$ 644,171	\$ 768,005
Appropriations Received by the Trust Fund <i>(Note 10)</i>	205,389	99,350
Interest	8,873	9,693
Revenue from Services Provided	7,329	7,288
Other	539	605
Total Revenues	<u>866,301</u>	<u>884,941</u>
EXPENSES		
AmeriCorps	454,971	541,939
National Senior Service Corps	240,775	241,555
Learn and Serve America	45,155	71,334
Subtotal	<u>740,901</u>	<u>854,828</u>
Congressionally Earmarked Grants	17,210	26,688
DVSA State Grants	1,202	1,211
Office of Inspector General	5,017	4,228
Total Expenses <i>(Note 11)</i>	<u>764,330</u>	<u>886,955</u>
NET OF REVENUES OVER EXPENSES	<u>\$ 101,971</u>	<u>\$ (2,014)</u>
NET POSITION		
Net of Revenues over Expenses	\$ 101,971	\$ (2,014)
Change in Unexpended Appropriations, Net <i>(Note 13)</i>	<u>123,702</u>	<u>(142,026)</u>
Change in Net Position, Net	225,673	(144,040)
Net Position, Beginning Balance	<u>648,387</u>	<u>792,427</u>
Net Position, Ending Balance	<u>\$ 874,060</u>	<u>\$ 648,387</u>

The accompanying notes are an integral part of these financial statements.

Corporation for National and Community Service
Statement of Budgetary Resources
For the Years Ended September 30
(dollars in thousands)

BUDGETARY RESOURCES	2004	2003
Budget Authority		
Appropriations Received, including Trust Fund	\$ 1,151,820	\$ 900,874
Net Transfers	<u>—</u>	<u>—</u>
Total Budgetary Resources	<u>1,151,820</u>	<u>900,874</u>
 Unobligated Balance		
Beginning of Period	347,495	336,583
Net Transfers	<u>—</u>	<u>—</u>
Subtotal	<u>347,495</u>	<u>336,583</u>
 Spending Authority From Offsetting Collections		
Collected	31,117	160,012
Receivable from Federal Sources	1,061	(794)
Advances Received	(35)	222
Without Advance from Federal Source	(896)	896
Anticipated for Rest of Year Without Advance	<u>1,807</u>	<u>—</u>
Subtotal	<u>33,054</u>	<u>160,336</u>
 Recoveries of Prior Year Obligations		
Actual	3,872	403
Anticipated	<u>—</u>	<u>—</u>
Subtotal	<u>3,872</u>	<u>403</u>
 Temporarily Not Available Pursuant to Public Law	<u>—</u>	<u>—</u>
 Permanently Not Available		
Cancellations of Expired and No-Year Accounts	(25,158)	(12,733)
Enacted Rescissions	<u>(5,553)</u>	<u>(53,143)</u>
Subtotal	<u>(30,711)</u>	<u>(65,876)</u>
 Total Budgetary Resources	<u>\$ 1,505,530</u>	<u>\$ 1,332,320</u>
 STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	\$ 1,350,861	\$ 991,607
 Unobligated Balance:		
Balance, Currently Available	49,346	59,063
Exempt from Apportionment	<u>25,073</u>	<u>226,999</u>
Subtotal	<u>74,419</u>	<u>286,062</u>
 Unobligated Balance Not Available	<u>80,250</u>	<u>54,651</u>
 Total Status of Budgetary Resources	<u>\$ 1,505,530</u>	<u>\$ 1,332,320</u>

(continued)

The accompanying notes are an integral part of these financial statements.

Corporation for National and Community Service
Statement of Budgetary Resources
For the Years Ended September 30
(dollars in thousands)

	2004	2003
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligated Balance, Net, Beginning of Period	\$ 629,155	\$ 733,045
Obligated Balance Transferred	—	—
Obligated Balance, Net, End of Period		
Accounts Receivable	(2,708)	(1,648)
Unfilled Customer Orders from Federal Sources	0	(896)
Undelivered Orders	674,840	505,021
Accounts Payable	365,534	126,678
Obligated Balance, Net, End of Period Total	<u>1,037,666</u>	<u>629,155</u>
Obligations Total	<u>\$ 1,666,821</u>	<u>\$ 1,362,200</u>
Outlays:		
Disbursements	\$ 938,313	\$ 1,094,992
Collections	<u>(31,081)</u>	<u>(160,234)</u>
Subtotal	907,232	934,758
Less: Offsetting Receipts	(17,206)	(17,913)
Net Outlays	<u>\$ 890,026</u>	<u>\$ 916,845</u>

The accompanying notes are an integral part of these financial statements.

Corporation for National and Community Service
Statement of Cash Flows
For the Year Ended September 30, 2004
(dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Net of Revenues over Expenses		\$ 101,971
Adjustments Affecting Cash Flow:		
Appropriated Capital Used, excluding Trust Fund	\$ (644,171)	
Appropriations Received by the Trust	(205,389)	
Decrease in Accounts Receivable	120	
Increase in Interest Receivable	(1,720)	
Increase in Advances	<u>(16,875)</u>	
		\$ (868,035)
Increase in Accounts Payable, Other Liabilities and Advances from Others	1,085	
Decrease in FECA and Annual Leave Liabilities	(141)	
Increase in Capital Lease Liability	27	
Increase in Trust Liability	6,875	
Increase in Grants Payable	<u>452</u>	
		8,298
Amortization of Premium/Discount on Investments	(1,208)	
Depreciation, Amortization, and Loss on Disposition of Assets	717	
Prior Year Expenses as authorized by P.L.108-11	<u>\$ 63,055</u>	
		\$ 62,564
Total Adjustments		<u>(797,173)</u>
Net Cash Used by Operating Activities		\$ (695,202)

(continued)

The accompanying notes are an integral part of these financial statements.

Corporation for National and Community Service
Statement of Cash Flows
For the Year Ended September 30, 2004
(dollars in thousands)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Property and Equipment	\$ (893)	
Sales of Securities	557,035	
Purchase of Securities	<u>(660,140)</u>	
Net Cash Provided by Investing Activities		\$ (103,998)

CASH FLOWS FROM FINANCING ACTIVITIES

Appropriations Received	940,918	
Canceled/Rescinded Appropriations	<u>\$ (30,711)</u>	
Net Cash Provided by Financing Activities		<u>910,207</u>
Net Cash Provided by Operating, Investing, and Financing Activities		111,007
Fund Balance with Treasury, Beginning		<u>743,363</u>
Fund Balance with Treasury, Ending		<u>\$ 854,370</u>

Supplemental Disclosure of Cash Flow Information

Interest Paid	\$ 10
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Supplemental Schedule of Financing and Investing Activities

Property and Equipment Acquired Under Capital Lease Obligations	\$ 44
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The accompanying notes are an integral part of these financial statements.

Corporation for National and Community Service
Statement of Cash Flows
For the Year Ended September 30, 2003
(dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Net of Revenues over Expenses		\$	(2,014)
Adjustments Affecting Cash Flow:			
Appropriated Capital Used, excluding Trust Fund	\$ (768,005)		
Appropriations Received by the Trust	(99,350)		
Decrease in Accounts Receivable	265		
Increase in Interest Receivable	(92)		
Decrease in Advances	<u>9,916</u>		
		\$	(857,266)
Increase in Accounts Payable, Other Liabilities and Advances from Others	2,873		
Increase in FECA and Annual Leave Liabilities	962		
Decrease in Commission Liability	(184)		
Decrease in Capital Lease Liability	(36)		
Decrease in Trust Liability	(807)		
Increase in Grants Payable	<u>28,406</u>		
			31,214
Amortization of Premium/Discount on Investments	543		
Depreciation, Amortization, and Loss on Disposition of Assets	<u>\$ 1,138</u>		
		\$	<u>1,681</u>
Total Adjustments			<u>(824,371)</u>
Net Cash Used by Operating Activities		\$	(826,385)

(continued)

The accompanying notes are an integral part of these financial statements.

Corporation for National and Community Service
Statement of Cash Flows
For the Year Ended September 30, 2003
(dollars in thousands)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Property and Equipment	\$	0	
Sales of Securities		445,933	
Purchase of Securities		<u>(444,983)</u>	
Net Cash Provided by Investing Activities			\$ 950

CASH FLOWS FROM FINANCING ACTIVITIES

Appropriations Received	791,205	
Canceled/Rescinded Appropriations	<u>\$ (65,876)</u>	
Net Cash Provided by Financing Activities		<u>725,329</u>
Net Cash Provided by Operating, Investing, and Financing Activities		(100,106)
Fund Balance with Treasury, Beginning		<u>843,469</u>
Fund Balance with Treasury, Ending		<u><u>\$ 743,363</u></u>

Supplemental Disclosure of Cash Flow Information

Interest Paid	\$	8
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Supplemental Schedule of Financing and Investing Activities

Property and Equipment Acquired Under Capital Lease Obligations	\$	-
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The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies

A. *Basis of Presentation*

These financial statements have been prepared to report the financial position, results of operations, and cash flows of the Corporation for National and Community Service (Corporation), as required by the Government Corporation Control Act (31 USC 9106) and by the National and Community Service Act of 1990, as amended (42 USC 12651). In addition, the Corporation prepares a Statement of Budgetary Resources, which reports on the status of appropriated funds, as one of its principal financial statements as required by the President's February 27, 2004 Executive Order on National and Community Service Programs. These financial statements have been prepared from the books and records of the Corporation. The Statements of Financial Position, Operations and Changes in Net Position, Statement of Budgetary Resources, and Cash Flows have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to Federal government entities and include the Corporation's activities related to providing grants and education awards to eligible participants. Additionally, the Statement of Budgetary Resources has been prepared in accordance with guidance prescribed in Office of Management and Budget (OMB) Memorandum 01-09, *Form and Content of Agency Financial Statements*, which constitutes generally accepted accounting principles for Federal governmental entities as specified by the AICPA's Statement on Auditing Standards 69 (as amended), *The Meaning of Presents Fairly in Conformity with Generally Accepted Accounting Principles*. The Corporation is not subject to income tax.

The principal financial statements of the Corporation are the:

- Statement of Financial Position;
- Statement of Operations and Changes in Net Position;
- Statement of Budgetary Resources; and
- Statement of Cash Flows.

The notes to the financial statements are considered an integral part of the financial statements.

B. *Reporting Entity*

The Corporation was created by the National and Community Service Trust Act of 1993 (Public Law 103-82, 42 USC 12651). The Corporation provides grants and other incentives to States, local municipalities, and not-for-profit organizations to help communities meet critical challenges in the areas of education, public safety, human needs, and the environment through volunteer service. The Corporation oversees three national service initiatives:

AmeriCorps is the national service program that annually engages Americans of all ages and backgrounds in full-time and sustained part-time community service and provides education awards in return for such service. AmeriCorps includes State, National, Tribes & Territories (State/National); National Civilian Community Corps (NCCC); and Volunteers In Service To America (VISTA) programs.

The **National Senior Service Corps** (Senior Corps) is a network of people age 55 and older who participate in the Foster Grandparent Program, the Senior Companion Program, and the Retired and Senior Volunteer Program. These programs tap the experience, skills, talents, and creativity of America's seniors.

Learn and Serve America supports and promotes service learning in schools, universities, and communities. Through structured service activities that help meet community needs, nearly one million students improve their academic learning, develop personal skills, and practice responsible citizenship.

Together, these initiatives promote the ethic of service and help solve critical community problems in every State, many Indian tribes, and most U.S. territories.

C. Budgets and Budgetary Accounting

The activities of the Corporation are primarily funded through two separate appropriation bills. One is the Labor/Health and Human Services bill, which funds Domestic Volunteer Service Act (DVSA) programs. The DVSA appropriation is available for obligation by the Corporation for one fiscal year only.

The second is the Veterans Affairs, Housing and Urban Development, and Independent Agencies bill, which funds National and Community Service Act (NCSA) programs. The NCSA appropriation is available for obligation by the Corporation over two fiscal years except for the Salary and Expense (S&E) account, which is available for one year.

Both the DVSA and the NCSA appropriations fund a part of the Corporation's costs for administrative operations. In addition, part of the NCSA appropriations are provided on a no-year basis for the National Service Trust (the Trust), a fund within the Corporation primarily used to provide education awards to eligible participants. The Trust provides awards for AmeriCorps members under AmeriCorps*State and National, Tribes and Territories, AmeriCorps*NCCC, and AmeriCorps*VISTA.

D. Basis of Accounting

Transactions are recorded in the accounting system on an accrual basis and a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Appropriations are considered earned for the Corporation's National Service Trust Fund and are recognized as revenue when received in the Trust Fund.

The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. Budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. Thus, the Statements of Financial Position, Operations and Changes in Net Position, and Cash Flows differ from the Statement of Budgetary Resources and other financial reports submitted pursuant to OMB directives for the purpose of providing information on how budgetary resources were made available and monitoring and controlling the use of the Corporation's budgetary resources.

E. Fund Balance with Treasury

The Corporation does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The Fund

Balance with Treasury represents annual, multi-year, and no-year funds, which are maintained in appropriated and trust funds that are available to pay current and future commitments.

Funds maintained in the National Service Trust are restricted for use in paying service awards earned by eligible participants as well as interest forbearance, and are not available for use in the current operations of the Corporation.

The majority of the funds received from individuals and organizations in the form of gifts and donations for the support of service projects are restricted for a particular use.

F. Trust Investments and Related Receivables

By law, the Corporation invests funds, which have been transferred to the Trust, only in interest-bearing Treasury obligations of the United States. These Treasury obligations are referred to as market-based specials, which are similar to government securities sold on the open market, and consist of Treasury notes, bonds, bills and one-day certificates.

The Corporation classifies these investments as held-to-maturity at the time of purchase and periodically reevaluates such classification. Securities are classified as held-to-maturity when the Corporation has the positive intent and ability to hold securities to maturity. Held-to-maturity securities are stated at cost with corresponding premiums or discounts amortized over the life of the investment to interest income. Premiums and discounts are amortized using the effective interest method.

Interest receivable represents amounts earned but not received on investments held at year-end. Prepaid interest is the amount of interest earned on a security since the date of its last interest payment up to the date the security is purchased by the Corporation. Such interest, if any, at year-end is included in the interest receivable balance.

G. Advances to Others

The Corporation advances funds, primarily in response to grantee drawdown requests, to facilitate their authorized national and community service and domestic volunteer service activities. The cash payments to grantees, in excess of amounts earned under the terms of the grant agreements, are accounted for as advances. At the end of the fiscal year, the total amount advanced to grantees is compared with the Corporation-funded amount earned by the grantees. Grantee expenses are determined from reports submitted by the grantees. For those grantees with advances exceeding expenses, the aggregate difference is reported as the advance account balance.

H. Accounts Receivable

Accounts receivable represents amounts due to the Corporation primarily under Federal and non-Federal reimbursable agreements, grantee audit resolution determinations, and outstanding travel advances due from employees. These amounts are reduced by an allowance for uncollectible accounts based on the age of each past due account.

I. Property and Equipment

The Corporation capitalizes property and equipment at historical cost for acquisitions of \$10 thousand or more, with an estimated useful life that extends beyond the year of acquisition. The assets reported include telephone equipment, computer systems equipment, copiers, computer software, furni-

ture, and assets under capital leases. These assets are depreciated (or amortized) on a straight-line basis over estimated useful lives ranging from two to 10 years, using the half-year convention. Normal maintenance and repair costs on capitalized property and equipment are expensed when incurred.

J. Trust Service Award Liability

The Trust service award liability represents unpaid earned, and expected to be earned, education awards and eligible interest forbearance costs, which are expected to be used. These amounts relate to participants who have completed service or are currently enrolled in the program and are expected to earn an award, based on the Corporation's historical experience.

K. Grants Payable

Grants are made to nonprofit organizations, educational institutions, states, municipalities, and other external organizations. Grants become budgetary obligations, but not liabilities, when they are awarded. At the end of each fiscal year, the Corporation reports the total amount of unreimbursed authorized grantee expenses, earned under the terms of grant agreements, as grants payable.

L. Accounts Payable

The Corporation records as liabilities all amounts that are likely to be paid as a direct result of a transaction or event that has already occurred. Accounts payable represents amounts due to both Federal and non-Federal entities for goods and services received by the Corporation, but not paid for at the end of the fiscal year.

Actuarial FECA Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for Corporation employees under FECA are administered by the Department of Labor (DOL) and later billed to the Corporation. The Corporation's actuarial liability for workers' compensation includes costs incurred but unbilled as of year-end, as calculated by DOL, and is not funded by current appropriations.

Other Liabilities

Other liabilities include amounts owed but not paid at the end of the fiscal year for payroll and benefits; VISTA stipends; and the portion of the liability for Federal Employees' Compensation Act charges incurred and billed but unpaid.

Accrued Annual Leave

Annual leave is accrued as a liability based on amounts earned but not used as of the fiscal year-end. Each year, the balance in the accrued annual leave account is adjusted to reflect current year pay rates and leave balances. Annual leave is funded from current appropriations when used. As unused annual leave is used in the future, financing will be obtained from appropriations current at that time. Sick leave and other types of non-vested leave are expensed when used.

Advances from Others

Advances from others consist of advances from other government agencies related to interagency agreements the Corporation entered into to provide

services to those agencies.

Net Position

Net position is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations are funds appropriated and warranted to the Corporation that are still available for expenditure as of the end of the fiscal year. Cumulative results of operations represent the net differences between revenues and expenses from the inception of the Corporation.

Revenues

Appropriated Capital Used

The Corporation obtains funding for its program and operating expenses through annual and multi-year appropriations. Appropriations are recognized on an accrual basis at the time they are used to pay program or administrative expenses, except for expenses to be funded by future appropriations such as earned but unused annual leave. Appropriations expended for property and equipment are recognized as used when the property is purchased. Funds not used for eligible expenses within the allowed time must be returned to Treasury. Appropriations received for the Corporation's Trust are recognized as revenue when received in the Trust Fund. Trust appropriations do not expire with the passage of time and are retained by the Corporation in the Trust until used for eligible education service award purposes.

Interest

Interest income is recognized when earned. Treasury notes and bonds pay interest semiannually, based on the stated rate of interest. Interest earned on Treasury bills is recognized at maturity. Interest income is adjusted by amortization of premiums and discounts using the effective interest method.

Revenue from Services Provided

The Corporation also receives income from reimbursable service agreements that is recorded as revenue from services provided. Revenue from services provided is recognized when earned, i.e., goods have been delivered or services rendered.

Other Revenue

Other revenue consists of gifts and donations for the support of service projects from individuals and organizations.

Retirement Benefits

The Corporation's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984, elected to join FERS and Social Security or remained in the CSRS.

For employees covered by CSRS, the Corporation contributes 8.51 percent of their gross pay towards retirement. For those employees covered by FERS, the Corporation contributes 11.50 percent of their gross pay towards retirement. Employees are allowed to participate in the Federal Thrift Savings Plan (TSP). For employees under FERS, the Corporation contributes an automatic one percent of basic pay to TSP and matches employee contributions up to an additional 4 percent of pay, for a maximum Corporation contribution amounting to 5 percent of pay. Employees under CSRS may participate in the TSP, but will not receive either the Corporation's automatic or matching contributions.

The Corporation made retirement contributions of \$791 thousand and \$668 thousand to the CSRS Plan, and \$5.72 million and \$6.09 million to the FERS and TSP Plans in FY 2004 and 2003, respectively.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Note 2: Fund Balance with Treasury

U.S. Government cash is accounted for on an overall consolidated basis by the U.S. Department of Treasury. The Fund Balance with Treasury line on the Statement of Financial Position consists of the following:

Appropriated Funds – Appropriated funds are received through congressional appropriations to provide financing sources for the Corporation's programs on an annual, multi-year, and no-year basis. The funds are warranted by the United States Treasury and apportioned by the Office of Management and Budget.

Trust Funds – Trust Funds are accounts designated by law for receipts earmarked for specific purposes and for the expenditure of these receipts. Funds from the Corporation's Trust Fund may be expended for the purpose of providing an education award or interest forbearance payment and must always be paid directly to a qualified institution (college, university, or other approved educational institution, or a lending institution holding an existing student loan) as designated by the participant, as well as awards under the President's Freedom Scholarship Program.

Gift Funds – Gift Funds are funds received from individuals and organizations as donations in furtherance of the purposes of the national service laws.

Fund Balance with Treasury as of September 30 <i>(dollars in thousands)</i>						
	2004			2003		
Type	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Appropriated Funds	\$850,437	\$ –	\$850,437	\$742,565	\$ –	\$742,565
Trust Funds	–	3,120	3,120	–	146	146
Gift Funds	6	807	813	15	637	652
Total	<u>\$850,443</u>	<u>\$3,927</u>	<u>\$854,370</u>	<u>\$742,580</u>	<u>\$783</u>	<u>\$743,363</u>

Note 3: Trust Investments and Related Receivables

The composition of Trust Investments and Related Receivables at September 30 is as follows:

Trust Investments and Related Receivables as of September 30 <i>(dollars in thousands)</i>		
	2004	2003
Investments, Carrying Value	\$334,575	\$230,262
Investment and Interest Receivable	3,338	1,618
Total	<u>\$337,913</u>	<u>\$231,880</u>

Amortized Cost and Fair Value of Investment Securities as of September 30 <i>(dollars in thousands)</i>								
	2004				2003			
Securities	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value
Notes	\$292,655	\$ 27	\$ -	\$292,682	\$175,244	\$5,648	\$ -	\$180,892
Bills	34,274	68		34,342	47,019	4	-	47,023
Bonds	7,646	198		7,844	7,999	570	-	8,569
Total	<u>\$334,575</u>	<u>\$293</u>	<u>\$ -</u>	<u>\$334,868</u>	<u>\$230,262</u>	<u>\$6,222</u>	<u>\$ -</u>	<u>\$236,484</u>

At September 30, 2004, the notes held at year-end had an interest rate range of 1.63% to 7.88% and an outstanding maturity period of approximately one day to five years. The interest rate on the bond was 10.75% and had a maturity period of approximately one year. The bills held at year-end had an interest rate range of 1.35% to 1.77% and were all due to mature within 149 days. The par values of these bills range from \$2 million to \$5 million.

As required by the Strengthen AmeriCorps Program Act, beginning in FY 2003 the Corporation has set aside in reserve a portion of the funds appropriated to the Trust in the event that its estimates used to calculate obligational amounts for education awards prove to be too low. As of September 30, 2004, \$19.9 million of the Corporation's investment account has been set aside for this reserve.

Investments held at September 30 mature according to the following schedule:

Maturation of Securities Held as of September 30 <i>(dollars in thousands)</i>				
	2004		2003	
Held-to-Maturity Securities	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	\$161,584	\$161,931	\$156,108	\$157,360
Due after 1 year up to 5 years	172,991	172,937	74,154	79,124
Total	<u>\$334,575</u>	<u>\$334,868</u>	<u>\$230,262</u>	<u>\$236,484</u>

Note 4: Accounts Receivable, Net

Accounts Receivable as of September 30 <i>(dollars in thousands)</i>		
	2004	2003
Accounts receivable	\$3,284	\$3,248
Less: allowance for loss on receivables	648	492
Accounts Receivable, Net	<u>\$2,636</u>	<u>\$2,756</u>

Note 5: Property and Equipment, Net

General Property and Equipment as of September 30 <i>(dollars in thousands)</i>							
2004					2003		
Major Class	Service Life (Years)	Cost	Less: Accumulated Depreciation	Net Book Value	Cost	Less: Accumulated Depreciation	Net Book Value
Equipment	3-10	\$2,916	\$2,017	\$899	\$1,998	\$1,676	\$322
Capital leases	3-5	92	29	63	164	123	41
ADP software	2	5,042	5,042	0	5,042	4,619	423
Total		<u>\$8,050</u>	<u>\$7,088</u>	<u>\$962</u>	<u>\$7,204</u>	<u>\$6,418</u>	<u>\$786</u>

Note 6: Service Award Liability— National Service Trust

Individuals who successfully complete terms of service in AmeriCorps programs earn education awards, which can be used to make payments on qualified student loans or for educational expenses at qualified educational institutions. The awards, which are available for use for a period of up to seven years after the benefit has been earned, are paid from the National Service Trust. The Trust also pays forbearance interest on qualified student loans during the period members perform community service as well as awards under the President's Freedom Scholarship Program. The award liability components related to education awards and interest forbearance have been adjusted, based on historical experience, to reflect the fact that some eligible participants may not use these benefits. The service award liability was composed of the following as of September 30:

Service Award Liability as of September 30 <i>(dollars in thousands)</i>		
	2004	2003
Education awards	\$814,176	\$707,919
Interest forbearance	26,957	24,371
Presidential Freedom Scholarship Program	17,499	14,200
Total estimated service award liability	858,632	746,490
Less: cumulative awards paid	621,135	515,868
Total	<u>\$237,497</u>	<u>\$230,622</u>

The net service award liability as of September 30, 2004, increased by approximately \$6.87 million from the net service award liability as of September 30, 2003. This change was largely due to new member enrollments and an increase in the number of members still serving during the year.

Note 7: Capital and Operating Leases

A. Capital Leases

The Corporation has entered into lease agreements for copy machines. These leases vary from 3 to 5 year terms and are deemed to be capital leases. The costs of the copiers have been recorded as property and equipment (also see Note 5). The following is a schedule by year of the future minimum payments under these leases:

Capital Leases Future Minimum Due as of September 30 <i>(dollars in thousands)</i>		
	2004	2003
Fiscal Year 2004	\$ –	\$ 13
Fiscal Year 2005	26	12
Fiscal Year 2006	25	11
Fiscal Year 2007	15	9
Fiscal Year 2008	7	–
Fiscal Year 2009	5	–
Total future minimum lease payments	78	45
Less: amounts representing interest	12	6
Total	<u>\$66</u>	<u>\$39</u>

B. Operating Leases

The Corporation leases office space through the General Services Administration (GSA). GSA charges the Corporation a Standard Level Users Charge that approximates commercial rental rates for similar properties. NCCC also leases housing facilities for its campuses. Additionally, the Corporation leases motor vehicles on an annual basis through GSA under an Interagency Fleet Management Service agreement for the National Civilian Community Corps. Commitments of the Corporation for future rental payments under operating leases at September 30 are as follows:

Estimated Operating Lease Commitments as of September 30 <i>(dollars in thousands)</i>								
	2004				2003			
Fiscal Year	Facilities Space	Vehicles	Other	Total	Facilities Space	Vehicles	Other	Total
2004	\$ –	\$ –	\$ –	\$ –	7,070	1,131	172	8,373
2005	6,408	1,111	196	7,715	7,363	1,162	174	8,699
2006	6,614	1,151	203	7,968	7,668	1,193	176	9,037
2007	6,827	1,190	211	8,228	7,985	1,226	178	9,389
2008	7,047	1,231	219	8,497	8,315	1,261	181	9,757
2009	7,274	1,274	227	8,775	–	–	–	–
Total	<u>\$34,170</u>	<u>\$5,957</u>	<u>\$1,056</u>	<u>\$41,183</u>	<u>\$38,401</u>	<u>\$5,973</u>	<u>\$881</u>	<u>\$45,255</u>

Note 8: Workers' Compensation

The Corporation's actuarial liability for future workers' compensation benefits (FECA) was \$12.4 million and \$12.5 million as of September 30, 2004 and 2003, respectively. The amount includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The actuarial liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds.

Note 9: Net Position

Net Position by Fund Balance Components <i>(dollars in thousands)</i>				
As of September 30, 2003				
	Gift Fund	Trust Fund	Appropriated Fund	Total
Unexpended appropriations	\$ —	\$ —	\$665,353	\$665,353
Cumulative results of operations	650	1,421	(19,037)	(16,966)
Total Net Position	<u>\$650</u>	<u>\$1,421</u>	<u>\$646,316</u>	<u>\$648,387</u>

The reported net position consists of unexpended appropriations and cumulative results of operations (cumulative results of operations represents the differences between revenues and expenses since the Corporation's inception). Component balances are separately maintained for the Gift Fund, Trust Fund and Appropriated Fund.

Net Position by Fund Balance Components <i>(dollars in thousands)</i>				
As of September 30, 2004				
	Gift Fund	Trust Fund	Appropriated Fund	Total
Unexpended appropriations	\$ —	\$ —	\$789,055	\$789,055
Cumulative results of operations	867	103,551	(19,413)	85,005
Total Net Position	<u>\$867</u>	<u>\$103,551</u>	<u>\$769,642</u>	<u>\$874,060</u>

Note 10: Appropriations Received by the Trust Fund

FY 2004 appropriations received by the Trust Fund were \$205.4 million, composed of a \$130 million Trust appropriation (less \$767 thousand Trust portion of the rescission to NCSA pursuant to the Miscellaneous Appropriations and Offsets Act of 2004); a \$63.1 million deficiency appropriation included in the 2003 Emergency Wartime Supplemental Appropriation Act (P.L. 108-11) which was received in FY 2004; and \$13.1 million transferred from program funds pursuant to the 2004 Consolidated Appropriations Act (P.L. 108-199). FY 2003 appropriations received by the Trust Fund were \$99.35 million (\$100 million less \$650 thousand Trust portion of the rescission to NCSA per Public

Law 108-7). The Trust portion of the NCSA rescissions were transferred back to NCSA, reducing the net amount of appropriations received by the Trust Fund during each fiscal year.

Note 11: Expenses

Using an appropriate cost accounting methodology, the Corporation's expenses have been allocated among its major programs:

AmeriCorps is the national service program that annually engages Americans of all ages and backgrounds in full-time and sustained part-time community service and provides education awards in return for such service. AmeriCorps includes State, National, Tribes & Territories (State/National); National Civilian Community Corps (NCCC); and Volunteers In Service To America (VISTA) programs. The State/National sub-program includes grant expenses, as well as direct and allocated personnel and administrative costs including AmeriCorps recruitment and Trust operations. The NCCC sub-program includes direct and allocated personnel and administrative costs including AmeriCorps recruitment and Trust operations. The VISTA sub-program includes grant expenses, as well as direct and allocated personnel and administrative costs including AmeriCorps recruitment and Trust operations.

The **National Senior Service Corps** (Senior Corps) is a network of people age 55 and older who participate in the Foster Grandparent Program (FGP), the Senior Companion Program (SCP), and the Retired and Senior Volunteer Program (RSVP). These programs tap the experience, skills, talents, and creativity of America's seniors. The Senior Corps responsibility segment includes grant expenses, as well as direct and allocated personnel and administrative costs for RSVP, FGP, and SCP. Costs for each sub-program are reported separately in the table.

Learn and Serve America supports and promotes service learning in schools, universities, and communities. Through structured service activities that help meet community needs, about 1.1 million students improve their academic learning, develop personal skills, and practice responsible citizenship. The Learn & Serve responsibility segment includes grant expenses, as well as direct and allocated personnel and administrative costs, for the Learn and Serve America Program, the President's Student Service Challenge, and National Service Leader Schools. The President's Freedom Scholarships are a component of the National Service Award expense line item.

Other Program Costs

The National Service Award line item consists of the Corporation's estimated expense for education awards based on the increase in its service award liability during the year, interest forbearance costs on qualified student loans during the period members perform community service, as well as disbursements for the Presidential Freedom Scholarship Program. No indirect costs have been allocated to this line item.

The Corporation's annual appropriation includes various Congressionally Earmarked Grants. In addition, the Corporation has reimbursable agreements with state agencies whereby the Corporation awards and administers grants to a list of grantees selected and funded by the State. No indirect costs have been allocated to these grants.

The Office of Inspector General (OIG) receives a separate appropriation. No indirect costs have been allocated to the OIG.

The largest component of total expense is grant funds expended.

Note 12: National Service Award Expense

Members participating in the Trust programs are eligible to earn a service award to pay for qualified education expenses. The Trust also pays interest

Components of Grant Funds Expended for the years ended September 30 <i>(dollars in thousands)</i>		
	2004	2003
Domestic Volunteer Service Act Programs	\$250,490	\$231,442
National and Community Service Act Programs	213,386	352,446
Earmarked Grants		
Congressionally Earmarked Grants	\$17,210	\$26,688
DVSA State Grants	<u>1,202</u>	<u>1,211</u>
Total Earmarked Grants	18,412	27,899
Total Grants Expense	<u>\$482,288</u>	<u>\$611,787</u>

Expenses by Major Responsibility Segment for the years ended September 30 <i>(dollars in thousands)</i>		
	2004	2003
AmeriCorps		
State, National, Tribes & Territories (State/National)	\$294,255	\$390,991
National Civilian Community Corps (NCCC)	33,056	36,640
Volunteers In Service To America (VISTA)	<u>127,660</u>	<u>114,308</u>
Subtotal	\$454,971	\$541,939
National Senior Service Corps		
Retired and Senior Volunteer Program (RSVP)	66,312	65,090
Foster Grandparent Program (FGP)	122,797	126,378
Senior Companion Program (SCP)	<u>\$ 51,666</u>	<u>\$ 50,087</u>
Subtotal	240,775	241,555
Learn and Serve America	45,155	71,334
Total Earmarked Grants	18,412	27,899
Office of Inspector General (OIG)	5,017	4,228
Total Expenses	<u>\$764,330</u>	<u>\$886,955</u>

Expenses by Type and Subprogram for the year ended September 30, 2004 (dollars in thousands)									
Type	AmeriCorps		National Senior Service Corps						Total
	State/ National	NCCC	VISTA	RSVP	FGP	SCP	Learn & Serve	Earmarked Grants	OIG
Grant and Related Expense									
Grant funds expended	\$175,981	\$ -	\$ 28,836	\$60,667	\$113,334	\$47,653	\$37,405	\$18,412	\$ -
VISTA & NCCC stipends & benefits	-	7,960	62,488	-	-	-	-	-	-
Service award expense	89,674	3,382	15,775	-	-	-	3,299	-	-
Total Grant and Related Expense	265,655	11,342	107,099	60,667	113,334	47,653	40,704	18,412	-
Administrative Expense									
Federal employee salaries & benefits	17,716	9,903	7,185	3,198	5,973	2,506	2,959	-	2,337
Travel & transportation	822	2,933	5,564	197	341	138	130	-	76
Rent, communications, & utilities	2,230	2,011	784	421	787	331	242	-	265
Program analysis & evaluation	552	501	501	159	294	124	376	-	-
Printing & reproduction	58	101	41	31	37	10	9	-	-
Other services	6,323	5,403	5,944	1,441	1,663	755	576	-	-
Supplies & materials	297	711	354	81	154	64	54	-	43
Depreciation & amortization	305	24	113	64	120	50	41	-	-
Bad debt	154	4	49	33	61	26	20	-	-
Other	143	123	26	20	33	9	44	-	-
Total Administrative Expense	28,600	21,714	20,561	5,645	9,463	4,013	4,451	-	5,017
Total Expenses by Type	\$294,255	\$33,056	\$127,660	\$66,312	\$122,797	\$51,666	\$45,155	\$18,412	\$5,017
									\$764,330

Expenses by Type for the year ended September 30, 2003 (dollars in thousands)												
Type	AmeriCorps			National Senior Service Corps					Learn & Serve	Earmarked Grants	OIG	Total
	State/ National	NCCC	VISTA	RSVP	FGP	SCP						
Grant and Related Expense												
Grant funds expended	\$270,576	\$ -	\$ 25,742	\$60,482	\$117,698	\$46,624	\$62,766	\$27,899	\$ -	\$ -	\$611,787	
VISTA & NCCC stipends & benefits	-	8,280	58,254	-	-	-	-	-	-	-	66,534	
Service award expense	<u>87,674</u>	<u>5,617</u>	<u>13,392</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,895</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,578</u>	
Total Grant and Related Expense	358,250	13,897	97,388	60,482	117,698	46,624	65,661	27,899	-	-	787,899	
Administrative Expense												
Federal employee salaries & benefits	20,208	9,523	5,876	2,778	5,392	2,147	3,568	-	-	-	1,808	
Travel & transportation	769	3,128	5,292	113	218	95	218	-	-	-	56	
Rent, communications, & utilities	2,482	2,210	591	354	688	273	410	-	-	-	283	
Program analysis & evaluation	1,518	-	-	151	294	117	367	-	-	-	-	
Printing & reproduction	103	113	221	79	66	32	14	-	-	-	-	
Other services	6,328	6,104	4,407	897	1,575	621	827	-	-	-	2,046	
Supplies & materials	230	1,548	280	62	118	48	70	-	-	-	32	
Depreciation & amortization	568	12	123	92	178	71	95	-	-	-	-	
Bad debt	193	4	41	31	61	24	32	-	-	-	-	
Other	<u>342</u>	<u>101</u>	<u>89</u>	<u>51</u>	<u>89</u>	<u>35</u>	<u>72</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>	
Total Administrative Expense	32,741	22,743	16,920	4,608	8,680	3,463	5,673	-	-	-	4,228	
Total Expenses by Type	\$390,991	\$36,640	\$114,308	\$65,090	\$126,378	\$50,087	\$71,334	\$27,899	\$4,228	\$886,955		

forbearance costs on qualified student loans during the period members perform community service. The Corporation estimates the expense for national service awards based on the increase in its cumulative service award liability during the year (see Note 6). The total service award liability as of September 30, 2004 and 2003, respectively, has been adjusted to reflect the fact that earned awards are not always used.

National Service Award Expense for the years ended September 30 <i>(dollars in thousands)</i>		
	2004	2003
Estimated education awards	\$106,245	\$104,581
Estimated interest forbearance	2,586	2,102
President's Freedom Scholarship Program	3,299	2,895
National Service Award Expense	<u>\$112,130</u>	<u>\$109,578</u>

Note 13: Increase/(Decrease) in Unexpended Appropriations

Increase/(Decrease) in Unexpended Appropriations, Net as of September 30 <i>(dollars in thousands)</i>		
	2004	2003
Increases:		
Appropriations received, net of trust	\$ 940,918	\$791,205
Prior year deficiency appropriation	63,055	—
Total Increases	1,003,973	791,205
Decreases:		
Appropriated capital used, net of trust	(644,171)	(768,005)
Appropriations received by trust	(205,389)	(99,350)
Rescinded appropriations, net of trust	(5,553)	(53,143)
Canceled appropriations	(25,158)	(12,733)
Total Decreases	(880,271)	(933,231)
Increase/(Decrease) in Unexpended Appropriations, Net	<u>\$ 123,702</u>	<u>\$ (142,026)</u>

Note 14: Contingencies

Contingencies

The Corporation is a party to various routine administrative proceedings, legal actions, and claims brought by or against it, including threatened or pending litigation involving labor relations claims, some of which may ultimately result in settlements or decisions against the Corporation. In the opinion of the Corporation's management and legal counsel, there are no proceedings, actions, or claims outstanding or threatened that would materially impact the financial statements of the Corporation.

Judgment Fund

Certain legal matters to which the Corporation is named a party may be administered and, in some instances, litigated and paid by other Federal agencies. Generally, amounts paid in excess of \$2.5 thousand for Federal Tort Claims Act settlements or awards pertaining to these litigations are funded from a special appropriation called the Judgment Fund. Although the ultimate disposition of any potential Judgment Fund proceedings cannot be determined, management does not expect that any liability or expense that might ensue would be material to the Corporation's financial statements.

Note 15: Reclassification of Expenses

During FY 2004 the Corporation began sub-allocating costs within each of its responsibility segments (AmeriCorps, National Senior Service Corps, and Learn and Serve America) to their major sub-programs. These immaterial reclassifications were for presentation purposes only and did not change total expenses. However, administrative costs allocated to each responsibility segment in the FY 2003 financial statements were adjusted as a result of the revised methodology.

Office of Inspector General Corporation for National and Community Service

AUDIT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE'S FISCAL YEAR 2004 FINANCIAL STATEMENTS

Audit Report Number 05-01
October 29, 2004



Corporation for
**NATIONAL &
COMMUNITY
SERVICE** 

Prepared by:

COTTON & COMPANY LLP
333 North Fairfax Street, Suite 401
Alexandria, Virginia 22314

This report was issued to Corporation management on November 12, 2004. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than May 12, 2005, and complete its corrective actions by November 12, 2005. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



OFFICE OF INSPECTOR GENERAL

Office of Inspector General Summary Audit of the Corporation for National and Community Service's Fiscal Year 2004 Financial Statements Audit Report 05-01

In accordance with the Government Corporation Control Act (31 U.S.C. §§ 9101-10), the Office of Inspector General (OIG) engaged Cotton and Company LLP to audit the Corporation for National and Community Service's fiscal year 2004 financial statements. This report presents the results of the audit. In summary:

- Cotton and Company's opinion on the financial statements is unqualified. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and results of operations of the Corporation.
- Cotton and Company considered certain matters involving the internal control over financial reporting and its operations to be a reportable condition. For the fourth consecutive year, the Corporation's monitoring of grantee activities is considered to be a reportable condition. However, Cotton and Company does not consider this reportable condition, more specifically described in Exhibit 1, to be a material weakness.
- Cotton and Company found no instances of material noncompliance with laws and regulations that would have a direct and material effect on the financial statements.

We provided a draft of this report to Corporation management for review and comment. The Corporation's response indicates that the clean opinion received reflects the continued hard work over the past two years to improve the Corporation's operations and regain the trust of Congress. The Corporation recognizes that grant monitoring must be improved, and has created a new position, Director of Grants Oversight and Monitoring, to manage grant monitoring across programs. The Corporation's response is presented in its entirety as Appendix A.



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Inspector General
Board of Directors
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying Statements of Financial Position of the Corporation for National and Community Service (Corporation) as of September 30, 2004, and September 30, 2003, and the related Statements of Operations and Changes in Net Position, Budgetary Resources, and Cash Flows for the years ended September 30, 2004, and September 30, 2003. These financial statements are the responsibility of Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation at September 30, 2004, and September 30, 2003, and the results of its operations and changes in its net position, budgetary resources, and cash flows for the years ended September 30, 2004, and September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 29, 2004, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with provisions of laws and regulations. Our reports on internal control and compliance are an integral part of an audit conducted in accordance with *Government Auditing Standards* and, in considering the results of our audit, those reports should be read together with this report.

Information listed in sections A, B and C (except for pages C-187 through C-229) in the accompanying table of contents for the Corporation's Performance and Accountability Report is not a required part of the financial statements. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

COTTON & COMPANY LLP



Alan Rosenthal, CPA
Partner

October 29, 2004
Alexandria, Virginia

COTTON & COMPANY LLP

auditors • advisors

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Inspector General
Board of Directors
Corporation for National and Community Service

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**

We have audited the financial statements of the Corporation for National and Community Service (Corporation) as of and for the year ended September 30, 2004, and have issued our report thereon dated October 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing the September 30, 2004, audit, we considered the Corporation's internal control over financial reporting by obtaining an understanding of the Corporation's internal control, determining if internal controls had been placed in operation, assessing control risk, and performing tests of controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. The objective of our audit was not to provide assurance on the Corporation's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls over financial reporting that, in our judgment, could adversely affect the Corporation's ability to record, process, summarize, and report financial data consistent with assertions by management in the financial statements. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We noted one matter, described in Exhibit 1, involving internal control over financial reporting and its operation that we consider to be a reportable condition. We do not consider this reportable condition to be a material weakness. The status of prior-year reportable conditions is reported in Exhibit 2.

We also noted other matters involving internal control and its operation that we will report to Corporation management in our management letter, which will be issued as OIG Audit Report 05-02.

We have provided a draft of this report to the Corporation. The Corporation's response to our report is included as Appendix A.

As required by the Government Corporation Control Act, this report is intended solely for the information and use of the United States Congress, the President, the Director of the Office of Management and Budget, the Comptroller General of the United States, the Corporation, and the Inspector General. It is not intended for, and should not be used by, anyone other than these specified parties.

COTTON & COMPANY LLP



Alan Rosenthal, CPA
Partner

October 29, 2004
Alexandria, Virginia

Exhibit 1
Corporation for National and Community Service
Reportable Condition
September 30, 2004

Grants Management

The Corporation for National and Community Service (Corporation) awards National and Community Service Act (NCSA) and Domestic Volunteer Service Act (DVSA) grants to State and local governments, institutions of higher education, and other nonprofit organizations. The Corporation expends the majority of its appropriated funds on grants, and grant activities result in the most significant components of the Corporation's financial statements. It is critical that the Corporation monitor grantee activity closely to ensure that grantees are complying with applicable laws and regulations related to the administration of grant awards. Grantees are required to expend funds for allowable costs and to provide periodic reports to the Corporation to demonstrate programmatic financial compliance with the terms of their respective grant agreements. As part of its grant monitoring program, the Corporation conducts site visits to ensure that grantees are complying with their grant agreements, and that State commissions are performing their prescribed duties.

The following weaknesses were noted in the Corporation's internal control over grants management.

Improvement Needed In Monitoring Grantee Activities

The Corporation has established formal grantee monitoring procedures that include periodic site visits to grantees; a process for obtaining, reviewing, and issuing management decisions on audit findings reported by the OIG, as well as by non-federal auditors in OMB Circular A-133 single audit reports; training conferences for grantee personnel; open lines of communication between program managers and grantees; and a grant closeout process. For DVSA grants, the Corporation utilizes the Senior Corps Compliance Monitoring Handbook. For NCSA grants, the State Commission Administrative Standards review is the primary tool for monitoring State commission grantees. The Corporation also has a separate monitoring tool for National Direct grantees.

While it was noted that the various program offices have each taken steps to implement the recommendations discussed in the prior year's internal control report, the Corporation's monitoring activities require further improvement in order to provide adequate controls over grantee activities. The prior year's reportable condition noted a number of instances where the Corporation was not adhering to its own policies. It was not performing site visits and other monitoring efforts on a timely basis, and the Corporation did not ensure that grantees submitted all required programmatic and fiscal reports on a timely basis. The recommendations to address these findings included the reevaluation of policies and procedures for conducting monitoring visits and the implementation of a risk assessment approach to selecting grantees for monitoring visits.

During the past fiscal year, the program offices have developed and implemented a risk assessment of grantees. However, of those State commissions and National Direct grantees identified by the risk assessment process as high risk, the Corporation conducted very few monitoring visits. Further, we believe that improvements need to be made to the risk assessment process to adequately document both the criteria used in assessing risk, as well as the steps performed to reach conclusions on the level of risk. This lack of criteria for performing risk assessments contributed to a number of instances where different program officers conducted assessments inconsistently. The Senior Corps program officers increased their site visits substantially by conducting site visits of nearly all grantees during Fiscal Year 2004. However,

there was a lack of adequate documentation as to the scope of testing and specific procedures performed by Senior Corps program officers in reaching their conclusions.

Recommendations

We recommend that:

- The Corporation's risk assessment should be based on consistently implemented criteria. The assessment should include the reasons justifying a risk rating and how the conclusion was reached. Documentation to support each risk assessment should be maintained to prevent the loss of institutional knowledge.
- After completion of the assessment tool, any further discussion by Corporation management, regarding the selection and prioritization of AmeriCorps*State grantees for monitoring visits should be adequately documented.
- The Corporation should prioritize monitoring visits based on a risk-based selection process, maintain a site visit travel schedule based on risk, and monitor progress made in completing these visits.
- The Corporation should develop monitoring policies to document what constitutes an acceptable, substantive review of grantees, in lieu of performing site visits. These activities include, but are not limited to, desk reviews, technical assistance, training, OIG reviews and audits, grantee audits, and other relevant monitoring activities performed by grant managers, program offices, the OIG, and external contractors.
- The Corporation should improve coordination between grant managers, program offices, and the OIG. The Corporation has created a new position of Director of Grants Oversight and Monitoring, which should be filled as soon as possible. The Director of Grants Oversight and Monitoring should establish consistent policies and procedures across Corporation programs and coordinate all monitoring efforts.

Exhibit 2
Status of Prior-Year Reportable Conditions
September 30, 2004

FY 2003 Finding	Type	FY 2004 Status
Monitoring of Grantee Activities	2001: Reportable Condition 2002: Reportable Condition 2003: Reportable Condition	Monitoring of grantee activities continues to be a reportable condition.

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Inspector General
Board of Directors
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the financial statements of the Corporation for National and Community Service (Corporation) as of and for the year ended September 30, 2004, and have issued our report thereon dated October 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance that the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Providing an opinion on compliance with those provisions was not, however, an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This audit was performed pursuant to the Government Corporation Control Act, and is intended solely for the information and use of the United States Congress, the President, the Director of the Office of Management and Budget, the Comptroller General of the United States, the Corporation, and the Inspector General. It is not intended for, and should not be used by, anyone other than these specific parties.

COTTON & COMPANY LLP



Alan Rosenthal, CPA
Partner

October 29, 2004
Alexandria, Virginia

APPENDIX A

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE RESPONSE



November 5, 2004

The Honorable J. Russell George
Inspector General
Corporation for National
and Community Service
Suite 830
Washington, DC 20525

Dear Mr. George:

Thank you for the opportunity to comment on the draft report on the audit of the Corporation's fiscal 2004 financial statements. I am pleased that the Corporation continues to receive a clean opinion on its financial statements. These results demonstrate the Corporation's commitment to sound financial management and reflect the result of the hard work by staff to improve the Corporation's operations.

I am also pleased that the audit noted that the Corporation's program offices have taken positive steps to address prior audit recommendations including developing and implementing a risk based approach to grantee monitoring. The fiscal 2004 audit makes several recommendations to further improve the monitoring of grantees. The Corporation agrees with these recommendations and will implement them over the course of the next year.

The Corporation is committed to improving and strengthening its oversight of grantees. To oversee this effort the Corporation has established a new position, Director of Oversight and Monitoring. The Director will be responsible for coordinating grantee monitoring and oversight across all program streams. In addition, the Corporation established an Award Oversight and Monitoring Council comprised of senior staff to ensure that the Corporation exercises uniformly excellent financial, administrative and programmatic award oversight and supports grantee success through effective compliance monitoring and training and technical assistance. The initial tasks of the Council are to assist in the hiring of the new Director and develop the fiscal 2005 oversight and monitoring plan. These tasks will be informed by the recommendations in the audit report.

I would also like to express my appreciation for the efforts that your staff and the staff of Cotton & Company made on the fiscal 2004 audit. Without this collaborative effort we would not have been able to achieve the expedited deadline for completing the audit.

Sincerely,

David Eisner
Chief Executive Officer



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Office of Inspector General
Corporation for National and
Community Service

AUDIT OF THE
CORPORATION FOR NATIONAL AND COMMUNITY
SERVICE'S NATIONAL SERVICE TRUST
SCHEDULE OF FISCAL 2004 BUDGETARY
RESOURCES AND OBLIGATIONS

Audit Report Number 05-03
October 29, 2004



Corporation for
**NATIONAL &
COMMUNITY
SERVICE**

Prepared by:

COTTON & COMPANY LLP
333 North Fairfax Street, Suite 401
Alexandria, Virginia 22314

This report was issued to Corporation management on November 12, 2004.



OFFICE OF INSPECTOR GENERAL

Office of Inspector General Summary
Audit of the Corporation for National and Community Service's
National Service Trust
Schedule of Fiscal 2004 Budgetary Resources and Obligations
Audit Report 05-03

In accordance with the Strengthen AmeriCorps Program Act, the Office of Inspector General (OIG) engaged Cotton and Company LLP to audit the Corporation for National and Community Service's National Service Trust Schedule of Fiscal 2004 Budgetary Resources and Obligations. The Strengthen AmeriCorps Program Act requires an independent annual audit of the accounts of the Corporation relating to the appropriated funds for approved national service positions, and the records demonstrating the manner in which the Corporation has recorded Trust obligations.

The Strengthen AmeriCorps Program Act directs that, beginning in fiscal year 2003, Trust obligations be recorded at the time the Corporation enters into an enforceable agreement with a National Civilian Community Corps (NCCC) member, or a member of Volunteers in Service to America (VISTA). In addition, the Act requires the Corporation to record Trust obligations when it awards a grant to an AmeriCorps State and National program. The Act also directs that the obligational amount be based on the estimated value of the education benefit, factoring in enrollment estimates, earning and usage rates, and the time value of money. The Act further requires the Corporation to establish a reserve account in the event that estimates used to calculate obligational amounts are insufficient to pay for education awards.

In summary, Cotton and Company concluded that the Corporation's Schedule of National Service Trust Schedule of Fiscal 2004 Budgetary Resources and Obligations presents fairly, in all material respects, the budgetary resources and obligations for the year ended September 30, 2004.



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Inspector General
Board of Directors
Corporation for National and Community Service

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying National Service Trust Schedule of Fiscal Year 2004 Budgetary Resources and Obligations of the Corporation for National and Community Service (Corporation) for the year ended September 30, 2004. This schedule is the responsibility of Corporation management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the schedule of budgetary resources and obligations is free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the schedule of budgetary resources and obligations. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying schedule of budgetary resources and obligations was prepared for the purpose of complying with the provisions of the Strengthen AmeriCorps Program Act (Pub. L. No. 108-45), as discussed in Note A, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the National Service Trust Schedule of Fiscal Year 2004 Budgetary Resources and Obligations referred to above presents fairly, in all material respects, its budgetary resources and obligations for the year ended September 30, 2004, on the accounting basis described in Note A.

In accordance with *Government Auditing Standards*, we have also issued our reports, dated October 29, 2004, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with provisions of laws and regulations. Our reports on internal control and compliance are an integral part of an audit conducted in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the United States Congress, the President, the Director of the Office of Management and Budget, the Comptroller General of the United States, the Corporation, and the Inspector General. It is not intended for, and should not be used by, anyone other than these specified parties.

COTTON & COMPANY LLP



Alan Rosenthal, CPA
Partner

October 29, 2004
Alexandria, Virginia

NATIONAL SERVICE TRUST FISCAL 2004 BUDGETARY RESOURCES

Corporation for National and Community Service National Service Trust Schedule of Fiscal 2004 Budgetary Resources and Obligations As of September 30, 2004 <i>(dollars in thousands)</i>		
Resources		
Funds Available for Award, Beginning of Year	\$	9,979
Fiscal 2004 Appropriation		130,000
Transfer from Fiscal 2004 Program Appropriation		13,101
Trust Reserve		(9,941)
Rescissions		<u>(767)</u>
Total Resources Available for Obligation	\$	142,372
2004 Obligations		
Education Awards		(127,090)
Interest Forbearance		(6,851)
President's Freedom Scholarships	\$	<u>(3,299)</u>
Total Obligations		<u>(137,240)</u>
Funds Available for Award, End of Year	\$	<u>5,132</u>

NOTES TO THE SCHEDULE

A. Basis of Accounting

The Schedule of Fiscal 2004 Budgetary Resources and Obligations for the National Service Trust (Trust) has been prepared from the books and records of the Corporation in accordance with the Strengthen AmeriCorps Program Act (Public Law 108-45, 42 USC § 12605) for the period commencing October 1, 2003 and ending September 30, 2004.

The activities of the Trust are funded through the Veterans Affairs, Housing and Urban Development, and Independent Agencies bill, which funds National and Community Service Act programs. Appropriations are provided on a no-year basis for the Trust, a fund within the Corporation used to provide education awards to eligible participants. Trust appropriations do not expire with the passage of time and are retained by the Corporation in the Trust until used for eligible education award purposes.

The Trust provides awards for AmeriCorps members serving in approved national service positions under AmeriCorps*State and National, AmeriCorps*NCCC, and AmeriCorps*VISTA, as well as for the AmeriCorps Education Award Program, where sponsoring organizations are responsible for providing member subsistence and other costs, and the Corporation provides an education award and a small amount for administrative costs.

Funds from the Trust may be expended for the purpose of providing an education award or interest forbearance payment and must always be paid directly to a qualified institution (college, university, or other approved educational institution, or a lending institution holding an existing student loan) as designated by the participant, as well as for payments under the President's Freedom Scholarship Program.

The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. Budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The Strengthen AmeriCorps Program Act directs that, beginning with fiscal 2003, Trust obligations be recorded at the time the Corporation enters into an enforceable agreement with an individual participant to serve in a program carried out under subtitle E of title I of the National and Community Service Act of 1990 (42 USC § 12611 *et seq.*), or title I of the Domestic Volunteer Service Act of 1973 (42 USC § 4951 *et seq.*), or awards a grant to (or enters into a contract or cooperative agreement with) an entity to carry out a program for which such a position may be approved under section 123 of the Act (42 USC § 12573). The Strengthen AmeriCorps Program Act also directs that the obligational amount be based on the estimated value of the education benefit, discounted for the estimated enrollment, earning and usage rates, and the time value of money.

For fiscal 2004, the Corporation used the following assumptions to calculate Trust obligations and budgetary needs: full value of the education award, 100 percent enrollment rate, 80 percent earning rate, and 80 percent usage rate. These enrollment, earning, and usage rates are more conservative than historical rates used previously in determining the Corporation's budgetary needs.

B. Trust Appropriation for Program Year 2004

The program year 2004 Trust appropriation was composed of a \$130 million appropriated in the 2004 Consolidated Appropriations Act (P.L. 108-199) less the \$767 thousand Trust portion of the rescission to NCSA pursuant to the Miscellaneous Appropriations and Offsets Act of 2004. In addition, \$13.1 million was transferred from program appropriations to the Trust pursuant to the 2004 Consolidated Appropriations Act (P.L. 108-199).

C. Trust Reserve

As required by the Strengthen AmeriCorps Program Act, in fiscal 2004 the Corporation set aside in reserve a portion of the funds appropriated to the Trust in the event that its estimates used to calculate obligational amounts for education awards prove to be too low. As of September 30, 2004, \$9.9 million of the amount originally appropriated to the Trust in 2004 had been set aside for this reserve. The total amount held in reserve under this provision for 2003 and 2004 was \$19.9 million as of September 30, 2004.

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Inspector General's Statement of Management Challenges

Challenge 1: Grant Monitoring and Management

The Corporation awards nearly \$700 million annually in grants to State commissions, nonprofits, community-based organizations, schools, and other civic organizations. The grants support the Corporation's mission of providing opportunities to Americans of all ages to engage in service that addresses the nation's educational, public safety, environmental, and other human needs. Monitoring such an extensive, nationwide grant-making operation efficiently and effectively presents a major challenge to the Corporation.

Since the Corporation spends the majority of its appropriated funds on grants, it is critical that the Corporation monitor grant activity closely to ensure that grantees are complying with applicable Federal laws and regulations related to the administration of grant awards. The Corporation's flagship program, AmeriCorps, is the largest recipient of the Corporation's appropriated funds. Three-quarters of AmeriCorps monies are awarded to State commissions, which, in turn, select and fund subgrantees that execute the programs. The Corporation is required to monitor these State commissions to ensure compliance with grant agreements, and ensure that State commissions are performing their prescribed duties.

As the main recipient of Corporation awards, the State commissions have been the focus of the vast majority of OIG audits. These State commission audits, as well as audits of other grantees, have identified several recurring problems that the Corporation needs to address, including:

- Grantees and subgrantees continue to fail to submit Financial Status Reports, progress reports, and member enrollment and exit forms in a timely manner.
- Grantees and subgrantees are unable to meet matching requirements or to provide documentary support for the reported matching contribution of non-Federal funds.
- State commission monitoring of subgrantees needs to be improved.
- The Corporation needs to emphasize to grantees the importance of conducting criminal background checks on potential members, and needs to clarify the grant provisions requiring background checks.

- Grantees and subgrantees are not maintaining sufficient time-keeping records for employees.

To improve grant management, the Corporation needs to emphasize to all State commissions and other grantees the importance of complying with the requirements that accompany the receipt of Federal funds. The Corporation should work with the State commissions and grantees to ensure that each understands these requirements and can effectively implement them.

The conclusion drawn from the audits of State commissions and other grantees that grantee monitoring needs improvement has been reinforced by the OIG's annual audit of the Corporation's financial statements. During the audit of the FY 2003 financial statements, the OIG found for the third consecutive year¹ that the Corporation's monitoring of grantee activities was a reportable condition.² Specifically:

- The Corporation did not conduct site visits of 15 of 52 State commissions within the prescribed three-year period. Of these 15, six State commissions were also identified as needing a site visit in the fiscal year 2002 financial statements audit;
- The Corporation did not conduct site visits of 53 of 1,400 Senior Corps grantees within the prescribed three-year period;
- Reports on site visit findings were not provided to 189 of 606 grantees within the prescribed 20-day period following the visits; and
- Progress reports, which describe program status and milestone achievements of grantees, were not always submitted to Corporation State offices as required.

The OIG's financial statements audit report contains four recommendations to improve the Corporation's grantee monitoring:

- The Corporation should consider reevaluating its policies and procedures to implement a risk-based approach for conducting site visits to State commissions, and the Corporation should comply with those procedures.
- Corporation State offices should better track the results of site visits and maintain visit schedules for Senior Corps grantees.
- The Corporation should provide grantees with timely feedback from site visits. Corporation management should consider the timeliness of site visit report submissions when evaluating its staff.
- Corporation State offices should more closely monitor whether progress reports have been filed and follow up on delinquent reports.

During the annual audit of the Corporation's financial statements, the auditors also became aware of two issues related to grant monitoring that presented opportunities for the Corporation to strengthen internal controls and operational efficiency. First, the auditors found that the Corporation should ensure that reviews of the Federal audit clearinghouse database are conducted regularly to identify grantees with weaknesses and compliance problems prior to the award of a grant. Second, grant closeout procedures are not always followed, preventing grants from being closed out in a timely manner. We recommended that the Corporation develop a consistent method for identifying expired grants and performing a timely closeout of these grants.

By implementing the recommendations on grant monitoring contained in the OIG reports noted above, the Corporation can enhance program efficiency and decrease the potential for fraud, waste, and abuse of Federal tax dollars.

Challenge 2: Financial Management

For the fifth consecutive year, the Corporation received unqualified (i.e., clean) opinions on its financial statements: the Statement of Financial Position, the Statement of Operations and Changes in Net Position, and the Statement of Cash Flows. In addition, this year the Corporation added a comparative Statement of Budgetary Resources as one of its principle statements. The Corporation also received a clean opinion on this statement. However, monitoring of grantee activities, as discussed in Challenge 1, remained a reportable condition.

While the Corporation has made progress over the last year, several financial management areas continue to present challenges, including:

The National Service Trust

The primary purpose of the National Service Trust is to fund education awards earned by AmeriCorps members who complete a designated term of service. The fiscal integrity of the Trust has improved substantially since 2002, when the Corporation violated the Anti-Deficiency Act by approving more AmeriCorps members than the Trust could support. To help prevent a recurrence, the OIG audited the Trust's budgetary resources and obligations in FY 2003, and our audit concluded that the Trust accounts are fairly stated. However, the management of the Trust still requires improvement.

As identified in the OIG's 2003 financial statements audit and in the Government Accountability Office's report on the National Service Trust,³ discrepancies exist in the member data the Corporation uses for the Trust. Inaccuracies in member information could cause errors in the disbursement of education awards and inaccurate computation of the Trust liability. In addition, member exit information and education award payments are not always processed in a timely manner. These delays can result in a misstatement of the Trust liability.

Government Travel Charge Cards

The Corporation has issued travel charge cards to employees who are frequent travelers to pay for transportation, lodging, meals, and other reimbursable expenses while on official travel. The cards should only be used for authorized expenses related to official travel. In FY 2001, the OIG initiated a review of Corporation employee use of the travel charge card. We identified more than 50 employees suspected of misusing the cards for personal benefit. Since that review, the OIG has revisited this issue annually and has identified fewer employees who have misused the card. We credit the Corporation's improved training of employees on the appropriate uses of the government travel charge card, but the potential for abuse remains a challenge requiring continued Corporation vigilance.

Other Financial Management Areas

- **The Gift Fund** – The Corporation's Gift Fund was created to receive donations from individuals and organizations to further national service. The OIG audited the Gift Fund and determined that it was fairly presented on the Corporation's financial statements. Yet, the audit identified several instances of noncompliance with Corporation policies, and recommended that internal controls on Gift Fund expenditures be improved.
- **Accounts Receivable and Debt Collection** – Certain policies relating to accounts receivable and debt collection were either not documented or not followed. We recommended that the Corporation document policies related to accounts receivable and consistently apply policies related to debt collection.
- **Vendor Payments** – Payments to vendors were not always disbursed in a timely manner. Delays in payments to vendors were traced to the Corporation's procedure, which requires several offices to verify contracts to ensure that goods and/or services have been provided before payments are made. We recommended that the Corporation place stricter controls on responsible offices, reemphasize the importance of timely payments,

examine offices with delinquent payments, and resolve bottlenecks in the disbursement process.

Challenge 3: Human Capital

The strategic management of human capital is one of the most important challenges facing the Corporation. To fulfill its mission, the Corporation must hire, train, and retain competent personnel. The Corporation operates under an Alternative Personnel System (APS) that is exempt from most of the provisions of Title 5 of the United States Code and other statutes that govern Federal employees. In 2003, the OIG issued a review that assessed the strengths and weaknesses of the APS, employee perceptions of the APS, the equal employment opportunity climate at the Corporation, and options for APS improvement.

In general, the report found that the APS has benefited the Corporation but has not been administered in a manner that optimizes its value. The report also found that many APS policies and procedures lacked clarity and were not understood by managers and employees. The APS also lacked credibility because some employees believed it was rife with favoritism. Furthermore, the roles of offices responsible for human resource decisions were not clear, and there appeared to be no “honest broker” whom employees trusted to resolve their concerns in a fair and honest manner. There was also a strong feeling among African-American employees that they were not treated equitably with regard to grade levels, promotions, salary increases, and disciplinary actions.

To address these issues, the report recommended that the Corporation take a number of actions, including:

- Improve communications to ensure that accurate information is conveyed to employees.
- Examine the APS to ensure that it is aligned with the Corporation’s strategic objectives.
- Create a Chief Human Capital Officer to oversee the APS and act as an “honest broker” in the organization.
- Clarify APS policies and the roles of offices involved in human resources decision-making.
- Conduct a detailed analysis of hiring, compensation, salary increases, promotions, awards, and disciplinary actions to identify areas where disparate treatment of employees may exist.
- Create an active diversity program to demonstrate the Corporation’s commitment to an inclusive culture.

- Provide APS training to executives, managers, and employees to dispel misconceptions about the system.

The Office of Personnel Management also conducted a human capital assessment of the Corporation and identified many of these same challenges. Since these reports were issued, the Corporation has made a visible, concerted effort to make human capital management a top priority. The Corporation has hired a Chief Human Capital Officer who has improved employee communications by holding periodic meetings to discuss personnel issues and by issuing a biweekly human capital update to employees. A Diversity Advisory Council has been established to help the Corporation address areas related to diversity. In addition, the Corporation has developed a preliminary strategic human capital plan that attempts to align human capital policies and practices with the Corporation's mission. While improvements have been made, the OIG recognizes the importance of this issue and plans to revisit the recommendations made in these reports to provide a complete assessment of the Corporation's progress.

Challenge 4: Information Security

The confidentiality and integrity of information systems are vital to the successful operation of the Corporation. Advancements in information technology have resulted in a number of benefits to the Corporation, such as information being processed more quickly and communicated almost instantaneously. However, these advancements have also increased the risk of fraud, inappropriate disclosure of sensitive data, and disruption of critical operations and services.

To address these concerns, Congress enacted the Federal Information Security Management Act of 2002 (FISMA). The FISMA provides a comprehensive framework to ensure that information resources supporting Federal operations and assets employ effective security controls. The FISMA requires the OIG to perform an independent security evaluation of the Corporation annually.

The OIG has performed the FISMA audit for FY 2004. The auditors commended the Corporation for taking the following steps to enhance its security program and address issues identified in the 2003 FISMA report:

- Provided staff access to a comprehensive library of current policies and procedures via the Corporation's Intranet.
- Initiated a proactive security awareness program.

- Conducted periodic network scans to identify vulnerabilities and take appropriate steps to mitigate risk.
- Installed an effective security incident reporting process that follows Federal policies.
- Completed effective configuration management of Corporation systems and assets.

The Corporation's noteworthy progress in 2004 is moderated, however, by one area that has shown little progress toward remediation. Our recent independent evaluation of the Corporation's information security identified a significant deficiency in the Corporation's annual testing and evaluation. The Corporation's major applications and general support system have not undergone complete testing and evaluation in the past 12 months. Failure to conduct annual testing and evaluation permits new threats and vulnerabilities to go undetected for an extended period of time. Furthermore, the absence of annual testing and evaluation poses a high risk to the Corporation's information security environment.

We commend the Corporation on the steps it has taken to enhance information security, but until this issue is addressed, the Corporation's information technology systems remain at risk.

Challenge 5: Performance Measurement

Over the past decade, the Federal government has intensified its focus on measuring the performance of government agencies. In 1993, Congress passed the Government Performance and Results Act of 1993 (GPRA) to increase agency accountability and improve the quality and delivery of government services. The GPRA requires agencies to set program goals, measure program performance against those goals, and report on agency progress. To further these purposes, the Administration announced *The President's Management Agenda* in 2001, which increased the focus on performance by formally integrating it with budget planning and reporting.

The Corporation funds a wide variety of community service activities through an extensive network of grantees and sub-grantees. Measuring the Corporation's performance depends on accurately assessing the performance of this network of grantees and aligning this information with the Corporation's goals and measures. Accurate and complete measurements of grantee performance are critical for evaluating the economy and efficiency of the Corporation, and its impact in communities across the nation.

Over the past few years, the Corporation has made advancements in three performance measurement areas. First, the Corporation has developed an Internet-based reporting system for AmeriCorps that allows grantees and subgrantees to collect performance information. Second, the Corporation has improved the quality of the performance data reported by grantees and subgrantees by providing training and technical assistance on using its Internet-based system. Finally, the Corporation's FY 2006 budget shows increased efforts in developing a performance-based budget that is more closely aligned with its goals and strategic objectives.

Despite these advancements, the Corporation continues to face some significant challenges that have been identified during the OIG's ongoing evaluation of AmeriCorps. For example, Corporation guidelines permit grantees and subgrantees to select their own performance measures and report on their progress through a variety of procedures and systems. The lack of specific, standardized performance criteria impairs the ability of the Corporation to use grantee performance information in reports to the President and Congress. Corporation guidance also requires grantees and subgrantees to only report on the top three activities they perform, potentially causing some important accomplishments to be underreported. In addition, the Corporation reviews performance information, but its computer systems are not structured to adequately track monitoring efforts to validate the accuracy of performance information. Correcting these deficiencies will enable Corporation management to more accurately measure the significant results and impact achieved by its grantees and subgrantees.

¹ The audit of the FY 2004 financial statements is currently underway. It appears, however, that the Corporation's grant monitoring, although improved from 2003, will again be identified as a reportable condition, making grant monitoring a reportable condition for four consecutive years.

² A reportable condition is an issue coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents a significant deficiency in the design or operation of internal controls that could adversely affect the Corporation's ability to meet its objectives.

³ Government Accountability Office, *Better Internal Control and Revised Practices Would Improve the Management of AmeriCorps and the National Service Trust* 12-15 (2004).

Corporation Response to the Management Challenges Identified by the Inspector General

In FY 2004, the Corporation has continued to make progress addressing a variety of management challenges at the same time that we are resource constrained. Senior management and the Board of Directors remain committed to ensuring that our programs are more accountable and effective. At all levels of the Corporation, we are reviewing our processes, benchmarking with other agencies, pulsing our customers and demanding excellence from our staff.

This year's OIG management challenges report does not adequately reflect the significant progress made by the Corporation over the past 18 months.

We understand that significant work remains to optimize program performance and ensure that the agency's internal management functions operate according to the highest standards of fiscal and operational accountability. Resource constraints make it increasingly difficult to meet increased demands for higher standards of accountability, especially in the highly decentralized grant programs administered by our agency. Nonetheless, in every area cited by the IG and in many more, the Corporation has begun to implement significant reforms – reforms that senior management and the Board of Directors are committed to seeing through.

Many of those reforms and strategic initiatives are discussed throughout this FY 2004 Performance and Accountability Report. In addition, we would like to respond to the specific points made by the OIG.

Grant Monitoring and Management

To build stronger oversight and management across all its programs, the Corporation recently established an Award Oversight and Monitoring Council comprised of senior staff. The Council's mission is to ensure that the Corporation exercises uniformly excellent financial, administrative and programmatic award oversight across its programs and supports awardees success through effective compliance monitoring, training and technical assistance. The initial tasks of the Council are to fill the new Director of Oversight and Monitoring position and develop the FY 2005

oversight and monitoring plan.

Risk-Based Monitoring.

In FY 2004, the Corporation piloted a risk-assessment process to target site visits and established new administrative standards for the state commissions to assess their performance in overseeing service programs in their states. The Corporation also established new protocols for reviewing the commissions' performance. Under these protocols, the Corporation now will conduct a more in-depth review of a one-third sample of the commissions each year. Following the commission would have six months to bring the commission into compliance with any of the new administrative standards. The Corporation also will continue to review its grants monitoring process, including its risk-assessment approach, to identify further improvements.

Senior Corps Monitoring

The Corporation established a pilot tracking system for Senior Corps grantees in FY 2004. In FY 2005, this system will be revised, based on this first year of operation. The agency will improve the system's site visit tracking and documentation capability. This improved documentation capability will better enable the grants specialists to document the scope of their testing and the specific procedures they performed in reaching their conclusions regarding the grantees visited. The Corporation completed all scheduled Senior Corps site visits in FY 2004—nearly 1,000 of them—and will maintain rigorous adherence to its schedule of visits to Senior Corps grantees going forward.

Timely Feedback from Site Visits

In FY 2004, about 86 percent of the Corporation's Office of Grants Management site visit reports were submitted on time. The Corporation will continue to improve the timeliness of its reports by, for example, implementing planned improvements to the agency's computer technology (e.g., the replacement of desktop computers with laptops) to the extent that sufficient funding is available. The Corporation includes timeliness as a performance standard for its staff.

Grantee Reporting

During the transition to electronic submission of reports, several difficulties surfaced related to electronic tracking in eGrants. The

Corporation has developed solutions to these challenges and that will address these problems in FY 2005. We will incorporate the tracking of AmeriCorps member enrollment and exit forms into eGrants during its next phase of improvements. In addition, we will modify the eGrants system to support a comprehensive system of reminders and follow-up messages on financial and programmatic reports.

Grantee Matching Documentation

When grantees demonstrate that they cannot meet match requirements because of a lack of available funds at the local community level, the Corporation works with the grantee to establish a grant level suitable to the grantee's match capability. To ensure that grantees maintain appropriate supporting documentation for the match, we provide technical assistance to them and conduct financial management training seminars that cover requirements for documentation.

In FY 2004, the Corporation conducted workshops and conferences for state commissions, national direct grantees, Learn and Serve America grantees and sub-grantees, including about 1,900 attendees. We also conducted 47 on-site technical assistance interventions and provided remote technical assistance to another 1,620 program managers. In FY 2005, the agency will conduct at least two more voluntary seminars and will plan a comprehensive mandatory seminar for all grantees for FY 2006. In addition, the Corporation trains all new grantees on match documentation requirements within the first three months of the grant project period.

The Corporation's recently updated its monitoring protocols to include clear guidance for reviewing the documentation for grantee/sub-grantee match funding. These protocols help to ensure that all grantees/sub-grantees maintain adequate match documentation.

Screening of Grantees

Grants Management Specialists at both the Service Centers and headquarters must review the clearinghouse and check for A-133 issues before executing every award. The Corporation identifies those grantees that have weaknesses, records that information in eGrants, and works with the applicant organization to undertake appropriate corrective action before executing the award.

Timely Grant Close-out

The Corporation established a method for identifying and tracking expired grants in FY 2001 and began a process to catch up on the backlog of expired grants at that time. Since then, the agency has closed over 90 percent of expired grants and decreased the backlog significantly. Close-out is often delayed because grantees must complete reconciliations before the Corporation can close the grants. Further improvements to timely grant close-out will require the Corporation to further simplify and automate the close-out process, and devote more staff time to follow-up with grantees on necessary reconciliations.

Grantee Documentation

During FY 2004, the agency transmitted clear guidance to all grantees and sub-grantees regarding the requirement to conduct criminal background checks on potential members. In addition, the language included in each grant was amended to further clarify this requirement.

The Corporation's grant guidelines and agreements, as well as OMB circulars, incorporate requirements for the maintenance of timekeeping records for employees. However, some grantees and sub-grantees have not maintained adequate timekeeping records. Therefore, the Corporation will conduct a mandatory, comprehensive financial management training conference in late FY 2005 or early FY 2006 that will include timekeeping requirements training.

The Corporation plans to address the outstanding OIG recommendations as fully as possible within existing resource constraints in FY 2005. The agency's implementation of risk-based monitoring and its expanded use of technology (e.g., laptops for site visits, as planned over the next few years) are expected to result in operational cost savings over time that can be used to address some of these issues. In some cases, improvements will require additional funding to enable the Corporation to fully address the OIG's concerns.

Further information on the Corporation's grants management and monitoring is provided in the following sections: "Status of Grants Management Reportable Condition" and "Improved Financial Management."

Financial Management

National Service Trust

The Corporation has already implemented improvements to the agency's procedures and systems to improve the agency's management of the National Service Trust. The agency implemented a set of controls to ensure the availability of Trust resources for AmeriCorps grant approvals, including:

- Estimating total FTE and member slots available for the grant cycle and allocating them to programs;
- Requiring the CFO to certify the program and Trust costs of each proposed grant approval;
- Recording Trust obligations concurrent with the grant award process;
- Automating safeguards in the Web-Based Reporting System (the agency's grantee reporting system) to help prevent grantees from enrolling more members than they were allotted; and
- Continuously tracking Trust enrollments to allow for timely mid-course corrections, if necessary.

The Corporation also has taken steps to validate the member data in the Trust, particularly for incoming members. However, ongoing reconciliation efforts continue to be necessary to resolve outstanding discrepancies. With regard to the timely processing of member exit information, the agency has improved the WBRS functionality and grantee/sub-grantee training to support more accurate and timely tracking of member exits. The agency's education award payments are processed promptly following member requests and validation of expenses. The agency will review its education award payment process to ensure it is as efficient as possible, while maintaining adequate control over Federal expenditures.

Controls on Use of Government Charge Cards

As noted by the OIG, the Corporation has reduced the number of employees identified as having mis-used Government charge cards for personal use substantially over the last few years to a very low level. The Corporation continues, however, to ensure that all employees with such cards are fully aware of the provisions limiting use to Corporation business by issuing reminder notifications periodically. Moreover, the agency continues to monitor charge card use for potential abuses, including reviewing a sample of charges each month.

Internal Controls on Gift Fund Expenditures

The Corporation is revising its policies and procedures to strengthen internal controls on Gift Fund transactions.

Timely Vendor Payments

Currently, the Corporation pays less than \$10,000 per year in interest and penalties due to late payments, representing about 0.001 percent of the agency's appropriation. Nonetheless, the Corporation will reexamine its procedure for verifying receipt of goods and services prior to payment to ensure adequate compliance with timeliness requirements.

Human Capital

In FY 2003, our Inspector General and the Office of Personnel Management issued highly critical reports of the Corporation's human capital program. These reports, augmented by suggestions from Corporation employees, led us to reassess nearly all of our human capital programs and develop a blueprint for reform—reform that fully embraces the goals of the President's Management Agenda.

Although the Corporation only began its reform initiative early in FY 2004, dramatic progress has already occurred. Key to this progress has been the development of a preliminary Strategic Human Capital Plan, modeled on the Office of Personnel Management's (OPM's) *Human Capital Standards for Success*. Working against our preliminary Strategic Human Capital Plan, the agency implemented major human capital reforms in FY 2004.

FY 2004 reforms that specifically address the OIG's concerns include:

- Improved communication with employees by initiating a biweekly newsletter and holding regular "all-staff" meetings on important human capital issues;
- Modified the agency's Alternative Personnel System to ensure alignment with the Corporation's strategic objectives by:
 - Reforming the long-time practice of using term appointments for on-going positions to instead use permanent appointments, thus increasing the number of high-quality job applicants and significantly improving employee morale;
 - Tightening the criteria used to determine bonuses and

pay adjustments and implementing a rigorous new managerial appraisal system, thus more closely tying pay to performance;

- Created a new position, Chief Human Capital Officer, to focus the agency's human capital reform efforts;
- Clarified personnel policies and office roles in human resource decision-making by conducting training and informational sessions for executives, managers and employees;
- Initiated the development of an active diversity program by establishing a Diversity Advisory Council; and
- Implemented the Federal Human Capital Survey to help identify employee concerns, particularly with regard to equitable treatment of employees.

In addition, in FY 2004 the Corporation implemented a number of additional human capital improvements, including:

- Doubling the agency's investment in employee training;
- Promoting leadership development by encouraging all supervisors, managers and executives to participate in "360-degree" assessments and to use the results of these assessments to prepare Individual Development Plans;
- Reinforcing the centrality of our programs and strengthened program management by more strongly exercising the functions of the Chief Operating Officer to enhance and integrate all program operations;
- Developing initial operational, output, and outcome metrics to better assess the agency's progress and to support more informed decision-making; and
- Receiving the Excellence in Government Ethics award for our comprehensive and highly effective ethics program.

Although enormous progress was made in FY 2004, the Corporation recognizes that building a diverse, energized, high-performing workforce requires a long-term investment of time and resources. To ensure the Corporation's ongoing progress, the agency will update and refine its Strategic Human Capital Plan in FY 2005, reassessing our progress, strengthening the measures used to determine our success and identifying further steps to achieve a high-performing workforce. Among other initiatives, our new Strategic Plan will call for:

- Implementing a rigorous new appraisal system for non-supervisory employees in FY 2005;
- Developing and testing a Workforce Planning Model that eventually will be applied to all Corporation units and occupations;

- Implementing a strategic approach to the use of training resources to ensure that such resources help to address skills gaps and leadership succession; and
- Streamlining staffing processes to identify the right people for the right jobs more quickly and efficiently.

Based on the tremendous progress made in FY 2004 and the agency's commitment to meeting its human capital challenges, the Corporation hopes to become a "model" of human capital management over the coming years.

Information Security

The Corporation has maintained an outstanding record of compliance with all applicable laws and regulations governing its systems, including the requirements of the Federal Financial Management Improvement Act (FFMIA) and the Federal Managers' Financial Integrity Act (FMFIA). As required by the Federal Information Security Management Act (FISMA), the Corporation performed a self-assessment of its major systems using the National Institute of Standards and Technology (NIST) ASSET tool in September 2003.

Additionally, the Corporation completed its 2004 testing and evaluation of its major systems using the NIST ASSET tool again in September and expects to complete new Certification and Accreditation reports for all of its major systems by January 31, 2005.

Although the OIG identified a deficiency in the Corporation's documentation and follow-up of its systems evaluation and test under the Federal Information Security Management Act (FISMA), two separate, recently completed audits identified no significant security vulnerability. In addition, the FY 2004 financial audit included significant security review that did not find any significant security weakness. The Corporation has a comprehensive security program that has been reviewed as part of this process with no significant changes recommended.

Grantee Performance Measurement

The Corporation has made enormous progress toward more performance-based grants management. Following on the agency's requirements for grantees to report at least one outcome measure, one output measure and one efficiency measure, the Corporation plans to codify and strengthen these requirements through the

AmeriCorps rulemaking process, with a final rule expected to be published in FY 2005.

However, the Corporation recognizes the need to incorporate performance measurement into the management of its grants more fully. To create a more performance-based grant-making process, the Corporation will work cooperatively with our grantees, sub-grantees, constituents, the Administration and the Congress to develop creative and effective solutions to both include grantee performance in the grants application and review process, and support promising new service organizations and approaches.

As a first step, in FY 2005 the Corporation will analyze grantee performance reporting and begin to identify common themes and approaches to effective performance measurement and management that might be used by other grantees. Based on these common approaches, the Corporation, working in consultation with the grantees and other constituents, will evaluate alternatives to enable more standardized reporting, while also enabling reporting of the unique results of many grantees.

In FY 2005 the Corporation will begin to analyze its grantee performance reporting in order to develop improved grantee and program performance measures that can be compared and combined in assessing grantee and program performance. A significant challenge in this development process will be to identify comparable measures to assess the exceptionally wide range of programs supported through the Corporation's programs. In addition, the Corporation will focus on the adequacy of current reporting requirements to accurately and fairly present the full range of grantee accomplishments. The Corporation also will assess the feasibility and usefulness of the data that would be generated from an expanded accomplishments reporting approach prior to imposing additional reporting requirements for grantees and sub-grantees.

Ongoing improvement to the eGrants system will help to address the need for improved grantee performance tracking under current reporting requirements. However, in FY 2005 the agency also will examine the eGrants system and the reporting requirements to ensure that comparable data is collected from grantees in all the Corporation's programs. This effort will require a review of data element and metric definition differences across programs and grantees and the development of more standardized definitions. Additional systems changes in FY 2006 will be dependent upon the improved performance reporting requirements to be developed by the Corporation over the next few years.

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